

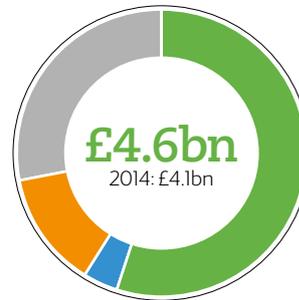
Market overview

We have established strong market positions in our chosen markets.

The focus of our operating activities continues to be targeted towards our long-established markets of UK, Middle East and North Africa and Canada. Within these markets our operations benefit from our ability to provide integrated solutions to address the needs of our customers, our exposure to a broad mix of blue-chip and Government customers and our expertise across a wide range of economic sectors. This section of our Annual Report aims to provide an overview of the key markets and the main activity drivers in relation to our operating units. The charts below set out an analysis of Group's revenue and order book by operating segment.



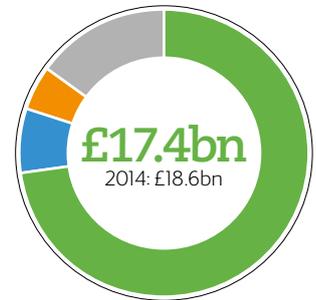
Revenue



- Support services 55%
- Public Private Partnership projects 4%
- Middle East construction services 13%
- Construction services (excluding the Middle East) 28%

Order book

(secure orders plus probable orders)



- Support services 73%
- Public Private Partnership projects 7%
- Middle East construction services 5%
- Construction services (excluding the Middle East) 15%



Support services



We are a leading international support services company with a broad range of skills and capabilities. We maintain and operate buildings and infrastructure, notably for large property estates and for transport and utility networks. We provide services to central government departments, local authorities, operators of utilities and transport networks and blue-chip companies in the private sector.

The table below sets out a summary of our support services target market sectors by geography.

	UK	Canada	Middle East and North Africa
Property and facilities management			
Corporate	●		
Defence	●		●
Health	●	●	
Home affairs and justice	●		
Local Government	●		●
Natural resources		●	
Infrastructure services			
Airports	●	●	
Electricity transmission and distribution	●	●	
Highways maintenance	●	●	●
Natural resources		●	●
Oil and gas	●	●	●
Rail	●		
Telecommunications	●		
Accommodation services			
Remote construction and development		●	
Natural resources		●	

UK Support Services

We are one of the largest support services businesses in the UK with a significant proportion of our revenue and order book generated from central and local government customers. Consequently our work-winning performance during the first half of 2015 was impacted by the slow-down in Government-related contract awards ahead of the UK General Election in May 2015, with this market returning to more normal levels during the second half of the year. Gross Domestic Product for the UK grew by 2.2 per cent in 2015 and it is currently forecast to grow by a similar amount during 2016, which should continue to support growth in our UK markets. Our UK support services activities are focused on two main markets, property and facilities management services and infrastructure services. The UK property and facilities management services market is estimated to be worth £45 billion per annum and is generally considered to be a relatively mature market. Nevertheless, we believe that this market will continue to offer opportunities for growth due to:

- public sector organisations continuing to move towards a commissioning role, rather than a delivery role, leading to the outsourcing of a wider range of services to the private sector
- the need for Local Authorities and Government departments to reduce costs, while maintaining or improving service quality, leading to an increase in the outsourcing of services to the private sector and

- growing demand from both the public and private sectors for innovative, cost-effective or value-adding solutions, including multi-service contracts.

The UK's infrastructure services market is estimated to be worth around £23 billion per annum. Long-term prospects for this market remain positive, with expected growth of around 6 per cent per annum over the coming years, underpinned by the following factors:

- Increased demand driven by the need to extend and upgrade utility networks, e.g. expected investment of £2 billion in broadband services over the next five years and £25 billion of investment in electricity power transmission and distribution over the next seven years
- Increased investment in renewing and upgrading highways from £2.9 billion to £4.1 billion per annum by 2020, under the UK Government's 'Roads Investment Strategy' and
- Planned investment by Network Rail of £35 billion in renewing and upgrading the UK's rail network over the period to 2021.

Canada Support Services

Our support services business in Canada is focused on the property and facilities management services market, which is estimated to be worth £14 billion per annum, the remote site accommodation services market, which is estimated to be worth £3 billion per annum, and the infrastructure services market, which is estimated to be worth £23 billion per annum. Reflecting its exposure to natural resources, growth in Gross Domestic Product for Canada reduced from 2.4 per cent in 2014 to around 1 per cent in 2015, but is forecast to improve to 1.6 per cent in 2016. The majority of our services that are targeted at the natural resources markets support the operation of existing assets, as opposed to new greenfield investments, and consequently we consider these markets to be less sensitive to changes in oil and other commodity prices. Although there is inevitably some uncertainty over the potential impacts of oil and commodity prices remaining at their current low levels for a much longer period, we expect the following factors to help underpin our support services activities in Canada:

- Our property and facilities management activities are expected to benefit from pressures on the public sector to reduce costs, an increase in the range of services outsourced by both the public and private sectors and an increase in facilities management services arising from the growing Public Private Partnerships market
- Our accommodation services business is expected to benefit from continued investment in the development of remote assets and infrastructure and the consequent need to support workers engaged on existing operations undertaken by oil and mining companies and
- Our infrastructure services activities are expected to benefit from Canada's programme to upgrade its power transmission and distribution networks, estimated to be worth over £50 billion, the opportunity to expand our highways maintenance activities into new territories and our ability to enable customers in the natural resources sectors to reduce costs through the provision of integrated service solutions.

Middle East and North Africa Support Services

Our Middle East and North Africa support services business is focused on the property and facilities management services market, which is estimated to be worth £4 billion per annum, and on the infrastructure services market, which is estimated to be worth £2 billion per annum. The Middle East economies have benefited from relatively healthy growth rates in recent years, however, the region's exposure to hydrocarbons and the fall in the oil price over the past year or so, is expected to result in a slow-down in growth in 2016. However, our support services operations in the Middle East are undertaken in support of operating and maintaining existing facilities, rather than new investment in oil industry facilities, and therefore we believe they are less sensitive to the effects of a prolonged low oil price. Although there is inevitably some uncertainty over the potential impacts of the oil price remaining at current low levels for a much longer period, we expect the following factors to underpin the future prospects for our support services business in the Middle East and North Africa region:

- Our property and facilities management activities are expected to benefit from opportunities to extend our activities beyond the UAE, due to growth in the number, size and complexity of buildings across the Gulf region, as individual countries continue to invest in the diversification of their economies away from oil and

Market overview

continued

- Our infrastructure services operations are expected to benefit from growing opportunities arising across the Gulf region from the adoption of planned highways maintenance regimes, increased investment in rail and scope to develop our oil and gas sector services to support the operation and maintenance of existing facilities.

The estimated sizes of our target support services markets are summarised in the table below, for each of our geographies, together with the total size of each market.

Annual value	UK		Canada			Middle East and North Africa	
	Infra	FM	Infra	FM	Accom	Infra	FM
Total market £bn	23	45	23	14	3	2	4
Target market £bn	7	25	13	7	1	0.5	2

Note:
Infra = Infrastructure
FM = Facilities Management
Accom = Accommodation

Public Private Partnership (PPP) projects



We are one of the world's leading companies in delivering PPP projects, for which we use our sector-leading expertise in arranging project finance, combined with our construction and support services capabilities, to deliver a wide range of asset-based services for public sector customers. The table below summarises our PPP target market sectors for each of our geographies.

PPP target sectors	UK	Canada	Middle East and North Africa
Health	●	●	●
Education	●		
Highways	●	●	

In the UK, the PPP market continues to offer a steady flow of new project opportunities, which is expected to remain at a similar level to that over recent years. Future projects are expected to be focused in the health, transport and education sectors, where we have strong track records, and the capital value of these projects is estimated to be worth in the region of £6 billion over the next five years.

Canada continues to have a major PPP investment programme, which has a capital investment value estimated to be worth around CA\$60 billion over the next 10 to 15 years. Our target markets, which are estimated to be worth around CA\$20 billion over this period, are primarily in Ontario and British Columbia. However, we are also beginning to see a growing pipeline of new potential PPP opportunities in other Provinces.

As yet, we have no PPP projects in the Middle East and North Africa. However, a number of Gulf States continue to explore opportunities for using private finance models to deliver buildings and infrastructure. Given planned investment is growing across most of our Middle East markets, particularly in social infrastructure, we are seeking to use our leadership in PPP projects to differentiate our offering and help mitigate the effects of a prolonged low oil price. For example, we have recently signed a Memorandum of Understanding with the Oman Investment Fund to develop PPP opportunities. We are also continuing to use the leadership position we have developed in the Gulf through working with UK Export Finance to offer customers an attractive source of project funding. This also differentiates our offering and should help us to mitigate the effects of a prolonged low oil price.

Middle East construction services



We offer a selective, sector-leading construction capability in our chosen markets in the Middle East, focused on large, higher value-added contracts for customers with whom we have, or can build, long-term relationships. The table below summarises our target market sectors in the Middle East.

	United Arab Emirates	Oman	Qatar	Kingdom of Saudi Arabia
Building construction				
Defence		●	●	
Education	●	●		
Health	●	●		●
High rise residential	●	●	●	
Mixed use	●		●	
Leisure	●	●	●	
Infrastructure construction				
Airports	●	●	●	
Rail			●	
Oil and gas	●	●	●	

Our Middle East construction activities serve both the building and the infrastructure markets. Construction activity across a number of Middle East territories has remained healthy over recent years, as countries continue to diversify their economies to reduce their reliance on the oil market. We expect activity in certain markets to continue to be driven by specific factors, such as the 2022 football world cup in Qatar and Expo 2020 in Dubai, although we remain cautious about the potential impacts of the prolonged low oil price on our revenue and margins. As mentioned above, we are already seeking to use our leadership positions in PPP projects and in UK Export Finance, to mitigate the potential effects of the low oil price on our activity levels in the Middle East. Over the longer term, other factors expected to underpin future volumes include the following:

- We expect our building activities to benefit from increased demand for hotel and leisure facilities driven by the growth in tourism and increased investment in social infrastructure to support population and economic growth and
- We expect our infrastructure activities to benefit from increased investment in roads and railways and the need for further investment in airport facilities, to support the expected growth in tourism.

The estimated sizes of our target Middle East markets of building and infrastructure are summarised in the table below, together with the total size of each market.

Annual value	Middle East construction services	
	Building	Infrastructure
Total market £bn	12	11
Target market £bn	4	1

Construction services (excluding the Middle East)



This business segment includes our construction activities in the UK and Canada. In both countries, we offer a selective, sector-leading construction capability, focused on large, higher value-added contracts for customers with whom we have, or can build, long-term relationships. Our construction capability is also key to our ability to offer fully integrated solutions for PPP projects in both the UK and Canada. Furthermore, in Canada, we are focusing our construction activities on PPP projects and moving away from traditional construction. The table below summarises our target market sectors for construction services in the UK and Canada.

	UK	Canada
Building construction		
Commercial and offices	●	
Defence	●	
Education	●	●
Health	●	●
High rise residential	●	
Infrastructure construction		
Airports	●	
Electricity transmission and distribution	●	●
Highways	●	●
Rail	●	

The UK construction market continues to recover, as indicated by the January 2016 construction purchasing managers' index of 55.0, which has remained above the neutral 50.0 threshold for 21 consecutive months. Volumes are expected to continue recovering, with the Euroconstruct forecast suggesting that the UK non-residential market is expected to grow at five to six per cent per annum, within which the fastest growing sectors are expected to be commercial, office and education buildings. UK infrastructure volumes are also expected to grow, driven by planned investment in a variety of infrastructure projects, notably roads and railways, including High Speed 2. In Canada, the market remains very competitive, which is why we have tightened our selectivity criteria there in order to focus increasingly on construction work secured through PPP projects. Factors expected to underpin future volumes for our construction activities in the UK and Canada include the following:

- Our UK building business expects to benefit from demand for new high-specification commercial buildings, institutional investment in new property developments and selective public sector investment in our target market sectors, for example, there is £23 billion of planned investment in school buildings over the next five years
- Our UK infrastructure business expects to benefit from planned investment of £61 billion in road and rail under the National Infrastructure Plan. In addition, we expect significant opportunities to arise from High Speed Rail 2, Crossrail 2 and the expected investment of £110 billion by the electricity supply industry over the next 10 years and
- In Canada, we expect current levels of demand to be underpinned by investment in buildings and infrastructure by Federal and Provincial government.

The sizes of our target markets in the UK and Canada are summarised in the table below, together with the total size of each market.

Annual value	UK		Canada	
	Building	Infrastructure	Building	Infrastructure
Total market £bn	39	18	9	35
Target market £bn	18	9	3	1